

THE COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Petition of Boston Edison Company and
Commonwealth Electric Company
for Approvals Relating to the Issuance of
Rate Reduction Bonds Pursuant to G.L. c. 164, §1H

D.T.E. Docket No. 04-70

**REPLY BRIEF OF THE AGENCIES ON THE
BOSTON EDISON COMPANY AND COMMONWEALTH ELECTRIC COMPANY
PETITION**

Introduction

Massachusetts Health and Educational Facilities Authority and MassDevelopment (successor to the Massachusetts Industrial Finance Agency) (the “Agencies”), acting jointly, hereby submit the following reply brief supporting the RRB issuance described in the petition (the “Petition”) of Boston Edison Company and Commonwealth Electric Company (collectively referred to herein as the “Companies” and individually as a “Company”) to issue electric rate reduction bonds (“RRBs”). This reply brief addresses certain issues raised by the Attorney General in its brief.

Argument

THE DEPARTMENT SHOULD NOT REQUIRE THE COMPANIES TO PROVIDE THE TREASURY DEBT INTEREST RATES AND PREMIUMS OVER THOSE RATES IT USES TO DETERMINE THE COUPON RATES WITH THE ISSUANCE ADVICE LETTER.

The Attorney General proposes that the Department of Telecommunications and Energy (the “Department”) should order the Companies to provide in the Issuance Advice Letter the data used to determine coupon rates to allow the Department to determine the reasonableness of the interest rates on the RRBs.

The role of the Agencies as provided for in G.L. c.164, § 1H(b)(2) includes providing expertise to the Department regarding the requirements of the Proposed Financing Order to allow for the most cost efficient structure for the issuance of the RRBs. It is the role of the Agencies as financing entity, not the Department, to oversee the issuance of the RRBs. The Agencies are currently overseeing the issuance of the RRBs and in consultation with the investment banker who has served in this capacity on behalf of the Agencies in connection with the prior RRB issuances and continues to serve in this RRB issuance, will approve the final terms and conditions of the RRBs including structure, pricing, credit enhancement, certain issue costs and manner of sale, thereby protecting the interests of the ratepayers. The Companies in turn in the Issuance Advice Letter will include the final pricing information as well as material details relating to the issuance.

Argument

THE DEPARTMENT SHOULD APPROVE FOR INCLUSION IN THE AMOUNT TO BE SECURITIZED ALL TRANSACTION COSTS APPROVED BY THE AGENCIES AND THE DEPARTMENT.

The Attorney General proposes that the Department should include in the balance to be securitized only those transaction costs associated with the securitization that have been invoiced to date and found reasonable by the Company.

As the Agencies stated in their initial brief, the goal of the Agencies is to protect the interests of the Companies' ratepayers, who through the payment of the transition charges are the sole source of payment for the RRBs, by ensuring the all-in costs of issuing the RRBs are minimized given current market conditions and by streamlining the administrative processes and thereby minimizing the costs of issuing the RRBs. It is the responsibility of the Agencies to protect the interests of ratepayers, by assuring that certain listed transaction costs are reasonable.

The Agencies have reviewed with each of the Companies its transaction costs and on-going administrative costs as follows.¹ Fees which have been established, negotiated or approved by the Agencies include underwriting spread, rating agency fees, printing and marketing expenses, trustee fees and trustee counsel fees, underwriters' legal fees, bond counsel fees, special counsel fees, Agencies' fees, and miscellaneous costs and expenses, many of which will be finally determined when the actual principal amount of the RRBs is established at issuance. The Agencies have found the above listed transaction costs to be reasonable both in terms of the Companies' proposed transaction and by reference to the Boston Edison Company and Western Massachusetts Electric Company past RRB issuances. The Agencies will continue to review the

¹ The Agencies have not reviewed certain transaction costs, including SEC and filing fees, Companies' legal and accounting fees, and covenant amendment fees.

above listed initial transaction costs proposed as part of the principal amount of the RRBs as those costs listed above are finalized at the time of issuance. The actual transaction costs will be included in the initial Issuance Advice Letter. The Department is charged with reviewing the reasonableness of the remaining transaction costs. These also will be included in the initial Issuance Advice Letter.

The Department will monitor the proposed recovery of the costs not reviewed by the Agencies including ongoing transaction costs included in the RTC Charges itself. The Department will receive from the Companies information concerning any additional adjustments in the transaction costs as part of the true-up mechanism. Estimated transaction costs will be trued-up as part of the annual RTC Charge routine true-ups. At that time, based on its review of the transaction costs, the Department may require the Companies to make an adjustment to its RTC Charge so that any over or under-collections can be addressed.

Conclusion

For the reasons stated above and in the Agencies' initial brief, subject to the limitations expressed in the first paragraph of the Agencies' initial brief's Argument, the Agencies believe the Department's approval of the Companies' Petition and issuance of the Proposed Financing Order will result in substantial savings to ratepayers not otherwise available.

Respectfully submitted,

MASSACHUSETTS HEALTH AND
EDUCATIONAL FACILITIES AUTHORITY

MASSDEVELOPMENT

By its attorneys,

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Dated: December 17, 2004

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RE: BOSTON EDISON COMPANY AND
COMMONWEALTH ELECTRIC
COMPANY PETITION FOR APPROVAL
OF RATE REDUCTION BONDS

D.T.E. 04-70

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing Reply Brief of the Agencies on the Boston Edison Company and Commonwealth Electric Company Petition upon all parties listed on the attached Service List in accordance with the requirements of 220 C.M.R. § 1.05(1) (Department's Rules of Practice and Procedure).

Dated this 17th day of December, 2004.

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